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SUBJECT: LEBANON: CENTRAL BANK GOVERNOR CAMPAIGNS FOR THE PRESIDENCY

Classified By: Ambassador Jeffrey D. Feltman for reasons 1.4 (b) and (d).

SUMMARY

¶11. (C) Lebanon's Central Bank Governor, Riad Salameh, in late February for the first time publicly expressed his interest in the Presidency. Salameh has issued veiled criticism of the GOL economic reform program, demonstrating his differing policy priorities and personal views from the current leadership and his need to distance himself from March 14 to appear a neutral and viable presidential candidate. The banking sector largely supports Salameh, who as president would probably remain interested in economic issues, oppose international intervention and monitoring, and work closely with the banking and business sectors. End Summary.

SALAMEH TAKES HIS CAMPAIGN PUBLIC

¶12. (SBU) Banque du Liban (BDL) Governor Salameh, in late February at a Rotary Club dinner, for the first time openly expressed his interest in the presidency; a parliamentary election to select the next President is due later this year. In response to a businessman who asked Salameh what his policy would be like if he were president, Salameh replied "Get me the presidency and I'll tell you." Also in February, Salameh announced to a reporter from the Lebanese French-language weekly magazine La Revue du Liban that he was a presidential candidate. Local English-language business magazine Lebanon Opportunities featured Salameh's views, and he addressed at least two late February policy-oriented luncheons attended by bankers and businessmen. Salameh has been an unofficial presidential candidate for years and was highlighted by French President Chirac during the Paris III conference as the apparent French favorite, but Salameh has not previously declared his candidacy.

SALAMEH CRITICAL OF SINIORA, REFORM PROGRAM

¶13. (SBU) As consensus builds that the next President will not be closely identified with either the majority or the opposition coalitions, Salameh has tried to appear more politically neutral and economically powerful than other economic officials. Salameh commented that while Lebanon's sharp political divisions have crippled other institutions, the "BDL has placed itself as an impartial institution, adopting a neutral policy towards the various political

parties." Salameh also reasserted that the BDL can claim credit for maintaining a stable currency and interest rates, and is looking for strategies to help the private sector.

¶14. (SBU) Salameh was officially part of the team that prepared the economic reform program, and commented constructively on monetary policy and the sale of BDL-held assets, but Salameh's contentious and competitive relationship with Prime Minister Siniora is clear in Salameh's criticism of the program. He publicly said, "the program addressed theoretically the sustainability of the GOL financial situation and has included some social initiatives." The BDL's contribution to the program was in monetary policy and the sale of assets held by the BDL. At the 2/21 lunch, Salameh indicated that if tax increases will hurt the purchasing power of the population, they will be postponed. This should appeal to opposition parties and labor federations, who have criticized the GOL reform program because of tax increases.

¶15. (SBU) Ministry of Finance (MOF) Director General Alain Bifani pointed out that Salameh and Siniora have not had a good relationship since the early nineties, and Salameh believes Siniora will try to keep Salameh from the presidency. Bifani also told us that Siniora has asked the IMF for a safeguard assessment of the BDL, as a way to place a check on the BDL's extreme autonomy during Salameh's tenure.

SUPPORT FOR SALAMEH

¶16. (SBU) Salameh has strong support from the banking community; he knows how to approach banks, prominent Lebanese banker Saad Azhari told us. As an investment banker at

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Merrill Lynch in charge of late PM Rafiq Hariri's portfolio, Salameh understands the markets. Since he took office in 1993, Salameh has forged extremely close cooperation between banks and the BDL, ensuring financial and currency stability and continued bank profitability. After Paris II, Salameh secured from the banking sector USD 3.7 billion in two-year, zero-interest deposits at the BDL to help the GOL reduce its debt. (Comment: Before Salameh took office, the BDL and banks had a tense relationship, although banks have benefited for years from high yields earned on sovereign debt. End Comment.)

¶17. (SBU) Azahri told us he would like to see Salameh as Lebanon's next president because Salameh has distanced himself from all political groups and maintains good relations with all. He pointed out that although Salameh was brought to head the BDL by late Prime Minister Hariri, he stood up to Hariri on several issues, including Eurobond swaps, proving that Salameh is ready to oppose his political allies when necessary to support what he believes is the best policy for Lebanon.

IMAGINING A SALAMEH PRESIDENCY

¶18. (C) Salameh as president would probably remain interested in economic issues, advocating for a more gradual tax increase, a stable currency and interest rates, and less intervention and monitoring by international entities. Salameh is also perceived as a proactive statesman who would expedite economic growth. However, aspects of Salameh's record may not bode well for a transparent presidency: whiffs of rumored corrupt behavior, a penchant for secrecy and extralegal autonomy at the Central Bank, past closeness with Syrian leaders, unwillingness to disclose the amount of Lebanon's net foreign exchange reserves, and resistance to the oversight of an IMF program. There is also a presumed constitutional constraint against Salameh assuming the presidency directly from his current post as Central Bank

governor, but a legal way could likely be found to bypass this restriction.

BIOGRAPHICAL DATA

¶9. (SBU) Salameh is one of several of Prime Minister Rafiq Hariri's former employees who have been entrenched in government for nearly 20 years. Salameh, a Maronite Christian born in 1950, became Hariri's portfolio manager during his 20 year career at Merrill Lynch, until Hariri brought him in to head the BDL for a six-year term in late ¶1992. He has remained there ever since. Salameh has a BA in Economics from AUB.

¶10. (C) In his tenure as Governor, Salameh has engineered monetary tools to maintain currency stability and embraced commercial banks as partners in supporting currency stability and building foreign currency reserves. His policies also transferred vast sums of government funds to the private banks and wealthy Lebanese and Arab allies. Salameh used his knowledge of the market to support Prime Minister Hariri; when in 1995 Hariri wanted to renew the term of President Hrawi, the markets came under pressure and the BDL disbursed around \$2 billion in foreign currency reserves and raised treasury bill yields to 40 percent to maintain currency stability. (Note: In the early 1990s some commercial banks, including the Hariri controlled BankMed and Saudi-Lebanese Bank, are believed to have speculated against the local currency which severely depreciated, reaching LL 3,000 to the dollar in spring 1992, causing the fall of Hariri foe Omar Karami, s Cabinet. End Note.)

¶11. (C) The Embassy has not been able to confirm or refute rumors that Salameh profited from strategic trading of GOL debt ahead of Paris III and from family connections at the BDL. Salameh signed a contract with Canadian firm British-American Banknote for printing the new Lebanese currency when he became BDL Governor in the early nineties. Salameh, s brother, Raja, is involved in the deal along with former Syrian Vice President Khaddam, s son, Jamal. Raja Salameh earned a commission on the deal then, and continues to earn a commission to date every time new banknotes are printed (as the quality of the paper is not good and the new currency has to be replaced every few years). Riad Salameh has sponsored his son-in-law Chafic Abillamah in the BDL Legal Department and in his private law firm's legal business

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with banks. Bifani told us that Salameh violated Lebanese law when the BDL issued long term monetary instruments at high interest rates that have mainly benefited financial institutions. He also noted that Salameh has been hiding the deficit in BDL's books by settling high interest MOF debt and reissuing lower interest debt in the BDL's portfolio. Salameh decides unilaterally on interest rate policies, although by law is required to do so in concert with the MOF.

FELTMAN